

Understanding Financial Statements

(Excerpt From The U.S. Small Business Administration, Office of Women's Business Ownership, Online Women's Business Center):

The BALANCE SHEET

The *balance sheet* is a snapshot of the company's financial standing at an instant in time. The balance sheet shows the company's financial position, what it owns (assets) and what it owes (liabilities and net worth). The "bottom line" of a balance sheet must always balance (i.e. assets = liabilities + net worth). The individual elements of a balance sheet change from day to day and reflect the activities of the company.



Analyzing how the balance sheet changes over time will reveal important information about the company's business trends.

The liabilities and net worth on the balance sheet represent the company's sources of funds. Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to the company in the past. As a source of funds, they enable the company to continue in business or expand operations. If creditors and investors are unhappy and distrustful, the company's chances of survival are limited.

Assets, on the other hand, represent the company's use of funds. The company uses cash or other funds provided by the creditor/investor to acquire assets. Assets include all the things of value that are owned or due to the business.

Financial Ratios and Quality

Indicators (Excerpt From The U.S. Small Business Administration, Office of Women's Business Ownership, Online Women's Business Center):

LIQUIDITY. Financial ratios in this category measure the company's capacity to pay its debts as they come due.

Quick Ratio

Definition: The ratio between all assets quickly convertible into cash and all current liabilities. Specifically excludes inventory.

Formula: $\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$

SAFETY. Indicator of the business' vulnerability to risk. These ratios are often used by creditors to determine the ability of the business to repay loans.

Debt to Equity

Definition: Shows the ratio between capital invested by the owners and the funds provided by lenders.

Formula: $\frac{\text{Debt}}{\text{Equity}}$

Debt coverage ratio

Definition: Indicates how well your cash flow covers debt and the capacity of the business to take on additional debt.

Formula: $\frac{\text{Net Profit} + \text{Non-cash expenses}}{\text{Debt}}$



Webibles

Learn more about "Understanding Financial Statements" using SBA online resources:

Using Financial Statements

http://www.onlinewbc.gov/docs/finance/fs_balmap1.html

Financial Ratios and Quality Indicators

http://www.onlinewbc.gov/docs/finance/fs_ratio1.html

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BREAKFAQS with SBA

This section provides answers to commonly asked questions related to financial statements.

Q: Who needs financial statements?

A: You, the business owner. Not only do you need to know how to read and interpret financial statements, but you must, above all, understand and appreciate how to use them as effective profit-making tools in your business.

Other users of financial statements include:

- Lenders
- Suppliers
- Investors
- Employees
- Governments - IRS, SEC, state and local

In some cases, even your customers may ask to review your financial statements. When customers request your financial statements, they are concerned with your ability to handle the volume of work you will receive from them. The last thing they want to do is depend on a supplier with insufficient financial capacity.



Questions



Send questions on the upcoming topics to Attn: BREAK

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SBA Headline News



SMALL BUSINESS WEEK 2002 STATE WINNER

Peter Knoerzer
Paul & Kate Knoerzer / Harvey Reed
OK Champion Corporation
4714 Sheffield Avenue/PO Box 585
Hammond, Indiana 46325
Machinery

National Small Business Week

"Small Business: Where America Works"
Held May 5-12, 2002 at
Renaissance Washington D.C. Hotel
Video - Audio - Webcast of event available at
<http://smallbusinessuccess.sba.gov/>

The SBA Indiana District Office also announced the state's Small Business Advocates of the Year and special category award winners. The following categories and winners were announced:

Minority Small Business Advocate of the Year - Dr. Guy Emechebe, UniCare Infusion and Health Services, Inc., Gary, Indiana.

Women In Business Advocate - Mary Kaczka, Executive Director, Hammond Development Corporation, Hammond, Indiana.

Accountant Advocate of the Year - Mr. William G. Summers, Summers, Carroll, Whisler, Muncie, Indiana.

Veteran Small Business Advocate - Mr. Michael A. Evans, Ph.D., President & CEO, AIT Laboratories, Indianapolis, Indiana.

Financial Services Advocate - Mr. Stefan S. Anderson, Chairman of the Board, First Merchants Corporation, Muncie, Indiana.

Exporter of the Year - Mr. Fredric A. Adams, President, Ahaus Tool and Engineering, Inc., Richmond, Indiana.

Entrepreneurial Success Award - Mr. Thomas B. Adams, Crown E.S.A., Inc., Portage, Indiana.

Small Business Journalist of the Year - Mr. Gerry A. Dick, President, Grow Indiana Media Ventures, Indianapolis, Indiana.

SBA Young Entrepreneur of the Year - Mr. Andy L. Lytle, Vice President, Microdome Computers, Inc., Madison, Indiana.

Home-Based Business Advocate of the Year - Denise L. Dailey, Walton Creek Farms, Deputy, Indiana.

When, What, Where?

Visit the Indiana District Office calendar at <http://www.sba.gov/in/> for information on upcoming events, seminars and workshops.

Upcoming Topics

Business Plans
Loan Proposals
Profiling Buyers

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BREAK with SBA Counseling & Training Resources

SCORE

A nonprofit association dedicated to encouraging the formation, growth, and success of small businesses nationwide through counseling and mentor programs.

Indiana locations:

Anderson	(317) 642-0264
Bloomington	(812) 339-8937
Columbus	(812) 379-4457
Elkhart	(574) 293-1531
Evansville	(812) 421-5879
Fort Wayne	(260) 422-2601
Gary	(219) 882-3918
Indianapolis	(317) 226-7264
Kokomo	(765) 457-5301
Logansport	(574) 753-6388
Marion	(317) 664-5107
New Albany	(812) 944-9678
South Bend	(574) 282-4350
Terre Haute	(812) 231-6763

Small Business Development Centers

The SBA, in conjunction with state government and local partners, administers the Small Business Development Center Program to provide management assistance to current and prospective small business owners.

Indiana locations:

Bloomington	(812) 339-8937
Columbus	(812) 372-6480
Evansville	(812) 425-7232
Fort Wayne	(260) 426-0040
Kokomo	(765) 457-7922
Lafayette	(765) 742-2394
Madison	(812) 265-3127
Muncie	(765) 284-8144
New Albany	(812) 945-0266
Portage	(219) 762-1696
Richmond	(765) 962-2887
South Bend	(574) 282-4350
Terre Haute	(812) 237-7676

Women's Business Center

Each women's business center provides assistance and/or training in finance, management, marketing, procurement and the Internet, as well as, addressing specialized topics such as home-based businesses, corporate executive downsizing and welfare-to-work.

Indiana location:

Fort Wayne (260) 424-7977